

**Railroad Retirement Board-Office of Inspector General
Semiannual Report to the Congress
April 1 - September 30, 2001**

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EXECUTIVE SUMMARY

This Semiannual Report describes the activities of the Office of Inspector General (OIG) at the Railroad Retirement Board (RRB) during the six month period ending September 30, 2001.

As required by the Government Information Security Reform Act, the OIG performed a security assessment of the RRB's mainframe and local area network information systems with the assistance of an independent contractor. The OIG also examined agency actions to address previously issued reinvention proposals for improving the management of agency operations. This office continued to monitor the activities of the agency's Investment Committee as well as the proposed legislative changes to amend the Railroad Retirement Act.

The Office of Audit continued its oversight operations of the development of the agency's document imaging system to ensure the agency is developing adequate controls in the system and is following its system development policies. Other audits and reviews examined a variety of areas including financial accounting issues, debt recognition and collection, the disability examination services contract, the RRB's cost of living mass adjustment process and the separation allowance disqualification process.

The Office of Investigations achieved 29 convictions, 7 indictments and informations, and \$1,554,316 in recoveries, restitutions, fines, civil damages, penalties, and potential economic loss prevented.

INTRODUCTION

Office of Inspector General

The Office of Inspector General (OIG) has the responsibility for promoting economy, efficiency and effectiveness in the programs of the Railroad Retirement Board. The office is also charged with the detection, prevention and elimination of fraud, waste and abuse in agency operations. To accomplish its mission, the OIG conducts audits, management reviews, and investigations.

The Railroad Retirement Solvency Act of 1983 established the Office of Inspector General at the Railroad Retirement Board by naming the agency as "one of such establishments" identified under Section 2 of the Inspector General Act of 1978. The Inspector General Act Amendments of 1988 added the RRB to the list of agencies covered by the Inspector General Act.

In fiscal year 2001, the OIG had 54 employees and an operational budget of \$5,700,000. The organization has three major components: the immediate office of the Inspector General, the Office of Audit, and the Office of Investigations. The office conducts its operations from two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

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Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the Executive Branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon the recommendation of railroad employers, one is appointed upon the recommendation of railroad labor organizations, and the third, who is the Chair, is appointed to represent the public interest.

The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families, under the Railroad Retirement and Railroad Unemployment Insurance Acts. The RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During fiscal year (FY) 2000, the RRB paid \$8.3 billion in retirement and survivor benefits to approximately 724,000 beneficiaries, while net unemployment and sickness insurance benefits of \$79 million were paid to almost 35,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$695 million to provide medical insurance benefits for 650,000 beneficiaries.

SIGNIFICANT ISSUES

PROPOSED LEGISLATIVE CHANGES

In its two previous semiannual reports to Congress, the OIG provided summaries of its review of pending legislative changes to the Railroad Retirement Act. During this reporting period, the OIG reviewed the agency's contingency planning efforts to assess the RRB's ability to implement the provisions of the proposed legislation.

Proposed changes provide for improvements in widow(er) benefits, the elimination of maximum annuity provisions, the restoration of an unreduced annuity feature for those retiring at age 60 with 30 years of service, and the reduction of a vesting provision to five years of service (for service credited after December 31, 1995). The financing provisions of the bill include the establishment of an independent trust with the responsibility for the investments that support retirement annuities, a pre-determined structure for establishing the tier 2 tax rates and the elimination of the supplemental annuity tax. Finally, the proposed legislation also provides that a private disbursing agent be used to pay RRB beneficiaries rather than the Department of the Treasury, as is the current practice.

The OIG has determined that current agency planning efforts appear adequate to provide reasonable assurance that the RRB could implement the pending legislation if enacted. The agency anticipates that the current version of the legislation will be modified to eliminate retroactive or immediate effective dates for benefit changes to permit sufficient time for implementation.

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The OIG recommended that agency management assign specific planning responsibilities to appropriate managers and revisit the original cost projections for implementation. Management agreed and has, in fact, completed the assignments for planning responsibilities as well as an update to the initial cost projections.

As of September 30, 2001, the House of Representatives had approved legislation, and the Senate was considering a revised version of the House bill.

REINVENTION PROPOSALS

Over the last six years, the Office of Inspector General has provided the agency's Board Members with a series of Reinvention Proposals that focused on major initiatives for significant changes in the management of agency operations. The proposals recommended that the Board Members concentrate their efforts on revising the organizational structure of the agency and significantly reducing the number of field service staff. Later proposals related to the primary mission of the agency associated with tier 1 benefits and to a change in the basic structure of the agency.

During this reporting period, the OIG reviewed the previous recommendations in light of the current environment and reviewed agency actions taken to address recommended changes. Although the Board Members have made several revisions to the organizational structure, they remain involved in daily administrative tasks rather than serving as an advisory and strategy-oriented panel. The RRB has implemented a 33% reduction in the number of field offices, but the agency employs about the same number of employees in its field service as it did six years ago. The OIG remains convinced that a

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centralized headquarters service that uses expanded information technology to deliver information and services should be adopted by the RRB.

No action has been taken on the remaining proposals. The OIG recommended that the RRB identify programs and operations that duplicate activities that are the primary responsibility of the Social Security Administration (SSA) and transfer these activities to the SSA over a three year period. The objective of transferring activity to the SSA should be to include all programs that SSA would normally provide without diminishing the benefits protection for railroad workers.

Another Reinvention Proposal recommended a change in agency status to a government corporation headed by an independent Chief Executive Officer. The Board Members have not pursued any action on this item.

The OIG strongly believes that the Reinvention Proposals have become more relevant with the passage of time and recommended that the Board Members initiate efforts for implementation.

**COMPLIANCE WITH THE
GOVERNMENT INFORMATION SECURITY REFORM ACT**

This law was enacted to ensure the security of unclassified and national security information systems. It requires annual agency reviews of the program management of information security programs, annual agency reports to the Office of Management and Budget (OMB), and annual evaluations of agency information security by the Office of Inspector General.

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The OIG performed a security assessment of the RRB's mainframe and local area network information systems with the assistance of an independent contractor. The review included the railroad retirement, unemployment and sickness insurance programs as well as tests of the general and application controls for these programs. Auditors also tested controls for the agency's financial management systems. System scanning and penetration testing were performed to determine if the agency is vulnerable to unauthorized access to RRB systems.

An examination was also made of the security practices, policies, procedures and application-specific security controls to prevent the interruption of services, the compromise of resources, or any other adverse effects on the operations of the RRB network.

Assessment results indicated weaknesses related to password management, security training, performance of periodic risk assessments, implementation of a security plan, mainframe security and desktop application security. The RRB's Chief Information Officer has initiated action to appoint a Chief Information Security Officer and has completed action on many recommendations contained in the report. Remaining recommendations are being addressed by corrective actions or are under discussion.

The RRB's report and the results of the OIG evaluation were submitted to OMB with the agency's annual budget submission on September 7, 2001.

INVESTMENT ACTIVITIES

During this semiannual reporting period, the OIG continued to monitor and comment upon the activities of the RRB's Investment Committee. As in the previous six months, the agency made only a few investments. This office provided RRB management with suggestions for improved reporting on investment activity and continued to stress the need for a more consistent, long-term investment strategy.

EXAMINING THE INEFFICIENCIES OF THE FEDERAL WORKPLACE

The OIG also issued a report that addressed the current procedures for handling complaints concerning personnel matters filed by non-union Federal employees and offered recommendations for improvement. At present, employees can either consecutively or simultaneously have claims that are based primarily on the same set of facts adjudicated by the Equal Opportunity Employment Commission, the U. S. Department of Labor and the Merit Systems Protection Board. Because the current process is replete with duplication of effort and delay, the complaining employee and agency are needlessly burdened, and meritorious claims are not resolved in a timely manner. The present bureaucracy accommodates employees who do not perform their jobs, and management is unable to efficiently deal with the problem and ensuing burden of litigation. The report suggested changes to increase efficiency and eliminate duplication of effort. The purpose of the report is to generate a meaningful discussion to resolve the issues which are of great importance to both government management and employees.

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OFFICE OF AUDIT

The Office of Audit (OA) conducts reviews to promote economy, efficiency, and effectiveness in the administration of RRB programs, and detect and prevent waste, fraud, and abuse in such programs. Through the Inspector General, the office ensures that the Board Members and the U.S. Congress are informed of current and potential problems in the RRB's programs and operations, and advised of recommended improvements, as well as the status of corrective actions. OA examines programmatic, financial, and administrative aspects of RRB operations.

During this reporting period, OA issued its first assessment reports of the RRB's mainframe and local area network information systems with the assistance of an independent contractor. Auditors also continued major monitoring activities of the development of the agency's document imaging system, proposed legislative changes to the Railroad Retirement Act, and the activities of the RRB's Investment Committee.

Descriptions of audits and reviews performed during this reporting period follow.

Review of Internal Control Over Financial Accounting for Obligations, Expenditures and Accounts Payable

In its financial statements for FY 2000, the Railroad Retirement Board recognized approximately \$19 million in goods and services procured in support of agency administrative activities. This figure excluded the salary and benefits of agency personnel. The purpose of this audit was to determine if internal control was adequate to ensure proper accounting and reporting of administrative obligations, expenditures and account payables.

Auditors determined that the internal controls over these administrative activities were generally adequate to ensure the reliability of financial reporting and to permit the preparation of financial statements that are free from material misstatement. However, weaknesses in internal control were identified that adversely impact the agency's ability to ensure compliance with laws and regulations and safeguard assets.

This audit identified two agreements that were executed using procedures intended for training procurements rather than being handled as service contracts. Service contracting is subject to a more thorough review and approval process. Payments totaling \$88,000 were disbursed without being subject to review for compliance with the Federal Acquisitions Regulations and appropriations law. In addition, the agency's obligation to pay an additional \$6,000 in vendor travel remained unrecorded at the end of the fiscal year.

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This review also disclosed a lack of separation of duties that permitted a few individuals to execute all key aspects of disbursement transactions which increases the RRB's risk of loss from error or fraud.

Management officials have issued memoranda to agency personnel concerning their responsibilities in the procurement process and obtained the opinion of legal counsel about specific appropriation management issues. Management also agreed to implement corrective actions to strengthen internal control to ensure the necessary separation of duties in disbursement-related activities.

Review of Railroad Retirement Board's Document Imaging Initiative for Railroad Retirement Act Programs

During this semiannual reporting period, OIG auditors continued their ongoing review of the document imaging system at the Railroad Retirement Board. Previous audits of the system identified several deficiencies in the agency's procedures and controls related to the reliability of imaged documents, access to the imaging system, system backup and recovery, and retention of the system's paper input documents.

This audit presented the results of the OIG's examination of the design and implementation of document imaging for Railroad Retirement Act (RRA) programs. The objective of this third review of document imaging issues was

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to ensure that the agency is developing adequate controls in the system, and is following its system development life cycle policies.

Auditors determined that the RRB is, in fact, including adequate controls in designing the RRA imaging system. However, the agency is behind schedule in implementing this system; some delay has resulted from changes made to the imaging system software. RRB management now expects to complete a revised implementation plan by December 31, 2001. Problems were identified with the tracking of cost data for the document imaging project; program managers have agreed to make improvements in tracking this data.

The RRB is not in compliance with document retention regulations; the agency has changed its processes for the maintenance of records but has failed to update its record disposition schedule. RRB program officials agreed to submit a revised retention schedule to the National Archives and Records Administration to address the document retention issue.

These same officials ignored an earlier decision by the document retention working group to retain some long-term paper documents for seven years from the date that a document is scanned into the system. The program officials decided not to image certain applications without consulting the working group representatives. Another problem exists because RRA paper applications and the supporting documentation for these long-term documents are maintained separately. The RRB Records Officer stated that these documents are no

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longer in the claim files and, therefore, are unscheduled records that cannot be sent to the Federal Records Center without special approval. Auditors believe there are no controls over access to many of these documents and recommended that the RRB (1) continue to create claim folders and (2) retroactively create claim folders for RRA applications cited in the audit. Program officials responded that new folders will not be retroactively created unless a problem is identified concerning compliance with the new retention schedule.

**Timeliness of Desk Audit and Vacancy Announcement
Processing by the Bureau of Human Resources**

The OIG conducted this review in response to recent concerns raised by RRB management about the processing timeliness of vacancy announcements and desk audits by the agency's Bureau of Human Resources. This bureau services the RRB's personnel management needs for 1,100 full and part-time workers at headquarters and in 56 field offices throughout the country. The bureau operates with a staff of ten full-time and five part-time employees.

Auditors found that the total time required for processing vacancy announcements had increased from 108 days in fiscal year (FY) 1977 to 139 days in FY 2000. Most of this increase was attributed to an increase in time between receipt of a request to fill a position and the initial posting of the vacancy announcement.

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The time required for processing desk audits, which includes a detailed study of actual job duties for comparison with the job description on which the present salary grade is based, had also increased since FY 1998. The time elapsed between the receipt of a request for a desk audit and the start of the audit increased from 93 days in FY1998 to 141 days in FY 2000. The time required for completing a desk audit and reporting the results did not vary greatly.

During the past five years, staffing in the Bureau of Human Resources decreased by 25%, and included the loss of some very experienced personnel. As a result, the RRB currently has one full-time human resources staff member for every 84 agency employees; the average ratio for 112 other Federal agencies is 1 to 42. Auditors concluded that the decreased staffing level and an increase in the number of vacancy announcements had caused processing delays. The Bureau of Human Resources requested an increase in its staffing allocation and funding to outsource selected services. These changes have been approved and are in the process of being implemented.

Auditors did recommend that the Bureau of Human Resources establish performance objectives to measure timeliness of its activities and report/track these goals in its monthly administrative reports. The Acting Director favors the development of such goals but has deferred action until new staff receives training and experience to perform at a productive level.

Railroad Retirement Act (RRA) Program Debt Recognition and Collection Experience

In FY 2000, the RRB established new accounts receivable due from the public totaling \$87.3 million including principal and interest, of which \$37 million is attributable to non-debt transactions. Auditors stated that the agency's large balance of receivables has resulted from the agency policy of maintaining an inventory of old, difficult to collect debt for up to ten years. They also believe that the inclusion of the non-debt transactions inflates reports of debt recognition and collection, and recommended that the practice be discontinued because they do not meet the criteria for receivable recognition. Such transactions include returned benefit payments, reclamations and routine Social Security adjustments. It is the opinion of the auditors that the continued recognition of these transactions as debt will adversely impact the public perception of agency program performance and prevent meaningful comparisons with other entities.

Auditors also cited another weakness in current procedure that does not provide for internal review or publication of measures of debt recovery performance, such as delinquency, turnover, clearance and cash collection rates that are traditionally used to evaluate debt management activities. Auditors recommended that the Bureau of Fiscal Operations prepare and circulate measures of debt recovery performance at least annually.

The RRB's Chief Financial Officer disagreed with the auditors' position and stated that the current agency process used for recognizing debt and related

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accounts receivable is appropriate and within the scope of the Statements of Federal Financial Accounting Standards. He emphasized that the agency's current procedures provide effective management control. He did, however, agree to report annually on key measures of debt management to the Board Members and agency managers.

Review of the RRB's Contract with Comprehensive Health Service, Inc. For Disability Examination Services

The Railroad Retirement Act mandates the payment of disability benefits to railroad workers. The RRB uses consultative examinations and/or ancillary tests as supportive evidence in making a determination of disability under the Federal guidelines for either a current or former railroad employee or his/her dependent. The RRB orders only the specific type of examinations and tests needed for a disability determination. The agency currently contracts with Comprehensive Health Service, Inc. (CHS) for disability examination services. From fiscal year 1999 through March 2001, the RRB paid CHS over \$4.8 million for the performance of 26,387 examinations.

The RRB has contract monitoring procedures to ensure that CHS complies with all technical requirements defined in the scope of work. This review determined that improvements are needed for more effective monitoring of CHS' performance. The contractor is not meeting the timeliness performance criteria in the contract; in fact, the timeliness criteria have only been met in one month, April 1998, since the inception of the contract. These delays in

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completing examination services could adversely affect the RRB's disability performance goals. Auditors recommended that the RRB should determine the causes for the delays and recommend improvements to assist CHS in meeting time frames. Responsible program officials concurred and will conduct a special study of cases that did not meet the standards.

Auditors also cited the need for program officials to separately track the timeliness of urgent and routine medical examination reports because each type requires different timeliness standards. Again, agency officials agreed to request programming changes to permit improved tracking and will report the data in monthly reports by the end of the calendar year.

Finally, auditors expressed concern over (1) the lack of specific criteria in the contract to stipulate the acceptable percentage of CHS medical examination reports that the RRB can reject, and (2) the lack of RRB program reporting on the number of rejected examination reports. Program officials agreed to perform a review of rejects to determine the causes and to identify any opportunities for reducing the number of rejects.

Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments

The Railroad Retirement Board administers the health and welfare provisions of the Railroad Retirement Act (RRA) which provide retirement-survivor benefits for eligible railroad employees, their spouses, widows and other

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survivors. During FY 2000, approximately 724,000 annuitants received benefits totaling \$8.3 billion under the RRA.

Auditors selected RRA overpayments established during FY 1998 that exceeded \$25,000 for detailed review and tracked the progress of collection in each of the 78 cases from the establishment date of the debt through the appeals process and any subsequent collection action. A total of 48 handling errors were identified which involved miscalculation of the overpayment amount, reopening of a final decision contrary to applicable regulation, delay or error in recognizing the need for re-adjudication, and inadequate communication between RRB units with debt recovery responsibilities. Auditors concluded that the agency's debt recovery process suffers from inadequate quality assurance procedures that adversely impact the quality of customer service and the efficiency of program operations. As a result of this audit, the agency's Office of Programs is conducting a review and analysis of the erroneous cases to identify necessary processing changes.

The audit revealed that overpayment letters issued to annuitants did not routinely include clear, concise and complete information concerning the circumstances of the overpayment. Letters advising debtors of the decision on their request for waiver were sometimes brusque and did not properly address all pertinent issues and circumstances.

Auditors also found that the RRB has collected and continues to assess and collect overpayments that were established due to a misapplication of certain provisions of the Social Security Act. In 1995, the agency's Board Members

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ended the practice of withholding RRA benefits from incarcerated felons. However, the agency did not return benefits that were withheld prior to February 1995 and continued to collect overpayments that had previously been assessed. New overpayments for periods of incarceration that pre-dated the change in policy continued to be assessed. Auditors recommended that the RRB restore benefits withheld from annuitants during periods of incarceration.

Review of the RRB's Handling of the Payment Rate Entitlement History System's Relational Edits

The RRB uses the Payment Rate Entitlement History (PREH) mainframe computer database as the primary source for accurate and complete benefit data. PREH supports the agency's retirement and survivor benefit payment process as well as actuarial projections and valuations. The database receives data from other RRB automated systems and creates an historical record of retirement and survivor benefit payment, rate and entitlement information. The system stores, updates and displays award-related and statistical data, and reflects historical activity for entitlement and payment records processed in June 1995 or later.

Benefit terminations, address changes, rate changes or other award activities necessitate changes to the PREH record. Extensive edits are designed into PREH processing to help ensure that data is properly recorded. PREH edits maintain the integrity of the historical record by ensuring that the PREH

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update system works properly. These edits check the consistency of data between fields. For example, relational edits check that the type of annuity is consistent with the annuity beginning date and that the rate payable is consistent with the underlying component amounts. Relational editing is performed when records are viewed on-line or corrected by examiners. Edit rejects (specific records with data errors) are displayed on-line for viewing and correction. In addition to the system's daily editing of record corrections, the RRB performs relational editing of all records in the PREH database at least once a year.

During their review, auditors determined that improvements are necessary to improve the PREH relational edit review and correction process. Examiners do not review and correct all PREH relational edit rejects that will likely detect benefit payment errors. Auditors recommended, and program officials agreed, that a comprehensive review, analysis and correction of PREH relational edits should be performed. The report also included recommendations concerning correction of specific relational edits; officials agreed to take corrective action on the identified problems.

Review of the RRB's Cost-of-Living Mass Adjustment Process

Public Law 92-336 provides for an automatic annual cost-of-living adjustment (COLA) to old age, survivor and disability insurance benefits beginning in 1975. In December 2000, the RRB's cost-of-living operation adjusted the

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monthly rates of 671,381 beneficiaries, with a net increase of over \$16 million in railroad annuities.

The RRB uses the cost-of-living formula specified by the Social Security Act, which in general is equal to the percentage increase in the Consumer Price Index (CPI) for urban wage earners and clerical workers from the third quarter of one year to the third quarter of the next year. When the CPI data is received by the agency, the mechanical cost-of-living program updates the appropriate computer benefit payment systems. Any cases that are rejected from the system are then forwarded to claims examiners for analysis and correction.

The RRB uses the Payment Rate and Entitlement (PREH) System to store entitlement and rate history information for all RRB beneficiaries. The results of each annual COLA are also stored in the PREH system. It is critical that information in the PREH system be accurate and up-to-date to ensure that the RRB can efficiently process cases in a timely manner.

This report recommended that improvements be implemented to enhance the effectiveness and efficiency of the COLA process. Auditors identified that the mechanical program does not always accurately compute the rates for survivor family groups, and the PREH system does not always contain accurate information on the cost-of-living reject codes or the dates of reject or review corrections. Program officials agreed to take corrective actions to address the identified weaknesses.

Review of Separation Allowance Disqualification Periods

A separation allowance is a payment by an employer to an employee in connection with the severing of the employment relationship. The Railroad Unemployment Insurance Act (RUIA) disqualifies employees who receive separation allowances from receiving unemployment and sickness insurance benefits. The disqualification lasts approximately as long as the employee would have worked to earn the amount of the separation allowance.

When an employee requests unemployment or sickness insurance benefits, the employee is required to report receipt of a separation allowance on his or her application and subsequent claim forms. RRB field office and headquarters personnel process these applications and claims forms, and ensure payment stop codes or separation allowance disqualification periods are established on employee records. Prior to paying RUIA benefits, the RRB notifies employers of their employees' claims for benefits, which allows an opportunity for employers to verify the accuracy of the claims. Employers can challenge the RRB's payment of RUIA benefits in instances in which employees received separation allowances.

This audit concluded that once separation allowance data is entered into RRB computer systems, computer applications are effective in accurately calculating separation allowance disqualification periods and in preventing and detecting erroneous RUIA benefit payments. The RRB should, however, improve controls to ensure that separation allowance data is input into RRB computer systems and disqualification periods are established in a timely

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manner. Current processing could allow some benefits to be erroneously paid and some overpayments to be undetected. Auditors recommended that the agency should use the separation allowance data filed by employers to establish separation allowance disqualification periods; management concurred.

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AUDITS: MANAGEMENT DECISIONS AND IMPLEMENTATION

Through a Memorandum of Understanding, the Director of Administration transferred the responsibility for managing the open audit follow-up system to the Office of Inspector General. This system tracks the status of corrective actions for all audit recommendations. Procedures are in place to ensure that the agency is in compliance with all applicable regulations. Office of Management and Budget Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

Management Decisions

Recommendations requiring a management decision on April 1, 2001	0
New recommendations issued during this period	
pending a management decision	3
Previous recommendations for which a management	
decision was made	<u>0</u>
Number of recommendations pending a management decision	
on September 30, 2001	3

Corrective Actions

Prior recommendations requiring action on April 1, 2001	77
New recommendations issued during this period	99
Recommendations for which corrective actions	
were completed from April 1 - September 30, 2001	<u>- 67</u>
Recommendations pending final action on September 30, 2001	109

OFFICE OF INVESTIGATIONS

The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify, investigate, and refer for prosecution and monetary recovery action, cases of waste, fraud and abuse in RRB programs. Through its investigations, OI also seeks to prevent and deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General, the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, and the Postal Inspection Service.

On September 17, 2001, the Railroad Retirement Board-Office of Inspector General received notification that the FBI was in need of investigative personnel to assist in New York with the investigation of the terrorist attack. In response to this request, on September 30, OI detailed five special agents for a period of 22 days to assist in interviews, evidence recovery and analysis. These personnel returned to the office on October 21, and five different agents were detailed for one week. We have also offered to provide personnel to conduct analysis regarding the financial crimes aspect of the investigation, and will continue to assist the FBI in its efforts.

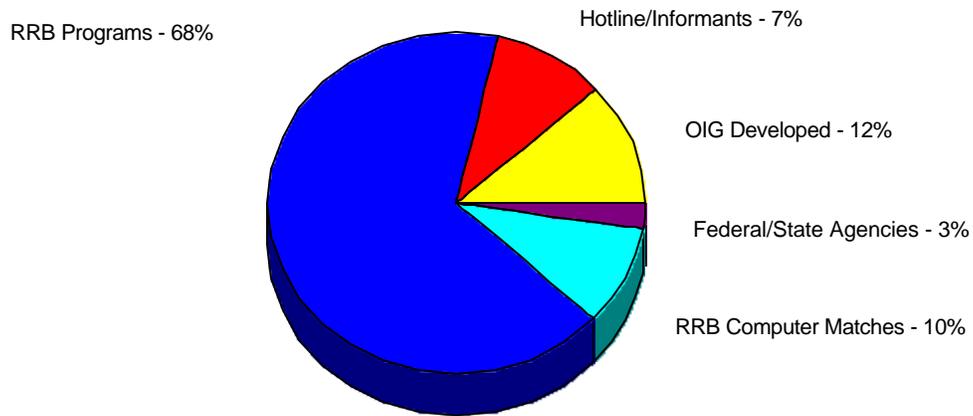
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Convictions	29	51
Civil Judgements	29	53
Indictments/Informations	21	37
Investigative Recoveries	\$ 170,134	\$ 297,792
Restitutions and Fines	\$ 632,598	\$ 942,219
Civil Damages and Penalties	\$ 455,759	\$ 761,637
Potential Economic Loss Prevented (PELP)	\$ 295,825	\$ 754,256
Community Service Hours	430	580
Disciplinary/Administrative Action	1	1
Civil Complaints	12	24
Criminal Complaints	2	5
Arrests	0	2
Subpoena Service:		
Inspector General	5	17
Federal Grand Jury	26	32
Trial	0	0
Program Fraud Civil Remedies Act Referrals	0	5
U.S. Attorney Referrals	203	404

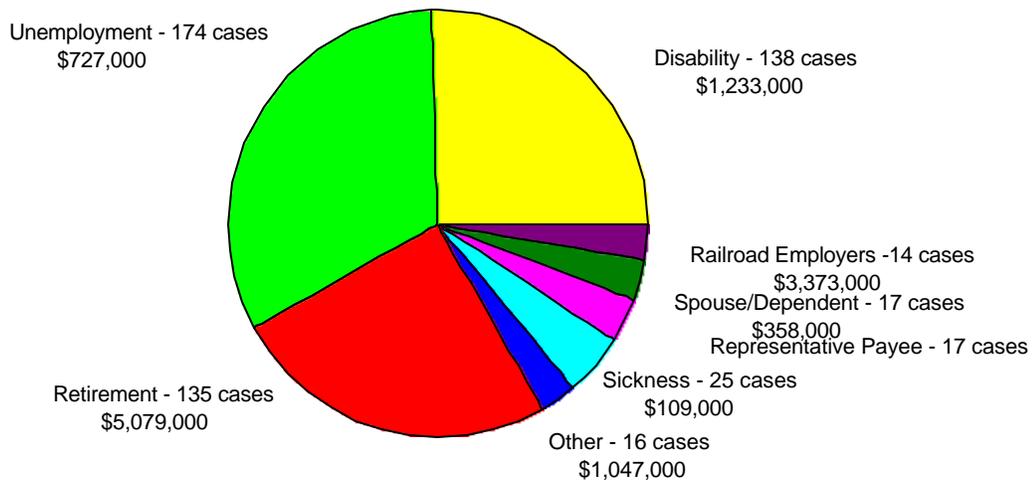
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INVESTIGATIVE CASES

During this semiannual period, OI opened 164 investigations and closed 176 cases. The major sources of case referrals are illustrated below.



OI's current caseload totals 536 criminal matters, representing over \$12 million in fraud against the RRB.



REPRESENTATIVE INVESTIGATIONS

Railroad Employer Fraud

OI investigates cases involving false reporting by railroad employers. Such cases are often worked jointly with the Internal Revenue Service under the direction of the Department of Justice Tax Division attorneys. These cases can involve complex fraud schemes which result from collusion among railroad employers, retired railroad workers and third party employers. These schemes have a substantial impact on the agency's trust funds because the retirees are receiving benefits to which they are not entitled and, at the same time, the employers are not submitting contributions to the trust funds as required.

By law, railroad employers are required to advise the agency of changes in their operations, organization or ownership that would affect their status for coverage under the Railroad Retirement and Railroad Unemployment Insurance Acts. The OIG has found that, due to a minimal policing of employers by the agency, it is very easy for employers to assign employees to affiliated business entities and report them as being covered under the Federal Insurance Contributions Act. Some employers have transferred employees to temporary employment agencies or payroll servicing companies to carry out the fraud.

OI continues to review the results of audits conducted by the agency's Audit and Compliance Division to identify fraud matters related to railroad employers. OI currently has 14 open cases involving allegations related to railroad employers.

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- As the result of a criminal investigation conducted with the Internal Revenue Service (IRS), the Office of Investigations (OI) identified that a railroad employer had considered some workers to be covered under the Social Security Act (SSA). The employer had filed false documents with the RRB and failed to file proper forms with the IRS to avoid paying required payments under statutes administered by the agency.

As a result of the investigation, the employer was ordered to file compensation adjustment reports for the years 1989-1993. The OIG reviewed the reports for accuracy and determined that each employee reported on the forms had identical SSA and RRB earnings on the RRB's Employment Data Maintenance automated system. In addition, the SSA earnings records had not been adjusted to indicate RRA earnings or to reduce the previously reported SSA earnings. The total duplicate earnings were approximately \$3 million.

OI alerted RRB program officials of the error and recommended that they advise the Social Security Administration to remove the SSA earnings for the identified employees' accounts. OI also directed the RRB to ensure that the duplicate earnings be removed from the agency's computer systems.

Retirement Benefit Cases

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained 12 convictions and five civil judgements for retirement fraud. Defendants received 9½ years imprisonment, 21½ years probation, five years suspended sentences, six months house arrest, 200 hours of community service, and were ordered to pay \$440,713 in restitution, \$1,340 in fines and \$81,898 in damages. The RRB will recover \$93,314 in overpayments from OIG investigations.

Examples of recent retirement cases follow.

- Based on a referral from a police detective, OI initiated an investigation of a representative payee, a brother authorized to negotiate RRB benefit checks on behalf of his sister. The investigation found that the subject and his wife had negotiated RRB annuity checks intended for the benefit of his sister. The subject was indicted for forcible sexual abuse and exploitation of a disabled or elder adult. His wife was also indicted on the exploitation charge. He pleaded guilty and was sentenced to five years in prison to run concurrently with a recent drug conviction and ordered to pay restitution of \$101,639 plus interest to his sister. His wife was sentenced to 180 days in jail and ordered to pay restitution of \$5,615 plus interest to the sister. The amount of RRB benefits included in the restitution totaled \$20,647 that will be paid to the sister.

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- OI opened an investigation after receiving a referral from the RRB concerning possible fraud by a spouse annuitant. Investigation showed that the subject had certified that she was caring for the child of a railroad employee. However, agents determined that the child was, in fact, in the custody of the State of Oregon. Between May 1994 and February 1998, the claimant had fraudulently received \$48,223 in benefits to which she was not entitled. She was subsequently convicted for violation of Title 45, U.S.C. Section 231(l)(a), willfully and knowingly failed to make a report required by the RRB, and was sentenced to one year imprisonment, 12 months supervised release, and ordered to make restitution of \$48,223 to the RRB.

- When an RRB annuitant reaches 100 years of age, the applicable RRB District Office delivers a centenarian letter to the annuitant. On this occasion, RRB personnel were informed upon their arrival that the annuitant had just passed away. Further research identified the actual date of death occurred in 1988. The annuitant's nephew, the legal guardian, continued to use his aunt's benefits which were deposited electronically in her bank account. His actions resulted in the theft of \$178,553 in RRB retirement benefits.

The subject admitted to illegally using the RRB funds and agreed to make full restitution to the RRB. He was sentenced to 12 months home detention and supervised release for a period of three years. He was also ordered to pay for the home monitoring.

Unemployment and Sickness Insurance Cases

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. The primary source of UI/SI fraud cases remains state computer matching programs that compare RRB beneficiaries with individuals for whom wages have been reported.

During this reporting period, OI obtained 16 convictions and 21 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, two years and five months imprisonment, 30½ years probation, and 2½ years suspended sentences. They were ordered to pay \$81,183 in restitution, \$67,347 in damages, \$225 in fines, \$198,865 in civil penalties and to perform 230 hours of community service. The RRB will also be able to recover an additional \$43,801 as a result of OI investigations.

Examples of typical cases involving individuals fraudulently receiving unemployment or sickness insurance benefits follow.

- A referral from the RRB's Sickness and Unemployment Benefits Division (SUBD) indicated that a claimant received benefits in the same calendar quarter when she was employed as a cashier in a jewelry store. OI's investigation determined that the claimant falsely received \$9,084 in sickness insurance benefits.

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The subject entered into a pre-trial diversion agreement for violations of 18 U.S.C. Section 641, Theft of Public Money. She received two years supervision and is required to make full restitution to the RRB.

- Another SUBD referral revealed a claimant who fraudulently collected sickness insurance benefits while employed at a liquor store. This particular individual had previously been arrested and/or convicted of conspiracy, assault in the 3rd degree, disorderly conduct, patronizing a prostitute, failure to submit to fingerprints, loitering, theft and burglary. The claimant submitted 23 false claims to the RRB, resulting in the theft of \$6,432 in sickness insurance benefits.

The subject signed a settlement agreement and voluntary wage attachment consent for a violation of Title 31, U.S.C. Section 3729, False Claims Act, and is required to make full restitution to the RRB.

- A State of Florida wage match identified an individual who was working as a longshoreman while collecting RRB issued unemployment and sickness insurance benefits. He submitted 22 false claims and two false statements, resulting in the theft of \$4,922.

The subject was convicted for submitting false claims and paid restitution totaling \$10,120 to the RRB, representing the original overpayment amount and \$5,198 in administrative penalties. He entered into a pre-trial diversion and was ordered to perform 50 hours of community service and was placed on probation for 18 months.

Disability Cases

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. During this reporting period, OI obtained three civil judgements for disability fraud. Defendants in these cases were ordered to pay \$93,552. An additional \$16,659 in overpayments will be recovered as a result of OI investigations concerning disability fraud cases.

Examples of disability cases follow.

- OI initiated another investigation of a disability annuitant based on a referred from the agency's Disability Benefits Division. The initial allegations indicated that the individual had received earnings in excess of the RRB's disability earnings restrictions, and had also failed to notify the RRB of his employment. Between 1996 and 1998, the claimant had falsely received disability benefits, resulting in the theft of \$18,668 in RRB disability benefits.

A Consent Judgement was entered against the individual for a violation of Title 31, U.S.C. Section 3729 through 3733, False Claims Act, and the claimant was ordered to make full restitution to the RRB.

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- Based on an anonymous referral, OI conducted an investigation of another RRB disability annuitant. The referral indicated that the annuitant had collected disability benefits while working as an electrician. OI's investigation revealed the claimant had used his wife's social security number and had earned in excess of his disability earnings restrictions from 1992-1995. The annuitant had falsely collected \$56,884 in disability benefits.

- . The annuitant entered into a consent judgement in U.S. District Court and agreed to repay the entire \$56,884.

AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM

Ol continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provisions of the Title 31, U. S. Code, Sections 3729-3733, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted.

During this reporting period, a total of 26 civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$362,227 to the government when the funds are collected.

The Department of Justice is frequently obtaining double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

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HOTLINE CALLS

The Office of Inspector General established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals who desire to report suspected criminal activity, conflict of interest, mismanagement, and waste of RRB funds.

	<u>04/01/01 - 09/30/01</u>
Total Contacts: (Telephone Calls and Letters)	639
Referred to: RRB-OIG, Office of Investigations	45
Office of Audit	0
RRB Bureaus/Offices	382
Other Federal Agencies	17
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	5
Other (misdirected calls, follow up calls to agents , etc.)	190

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the agency's administration of its programs and on the prevention of fraud and abuse.

Review of proposed legislation is discussed on page 4.

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APPENDIX A - OIG REPORTS ISSUED

- P Review of Internal Control Over Financial Accounting for Obligations, Expenditures and Accounts Payable, April 6, 2001

- P External Quality Assurance Review of the Corporation for National Service, Office of Inspector General, April 26, 2001

- P Management Information Report - Reinvention 2001, May 25, 2001

- P Review of the Railroad Retirement Board's Document Imaging Initiative for Railroad Retirement Act Programs, June 5, 2001

- P Management Information Report - Timeliness of Desk Audit and Vacancy Announcement Processing by the Bureau of Human Resources, June 28, 2001

- P Site Security Assessment, July 20, 2001

- P Management Information Report - Railroad Retirement Act Program Debt Recognition and Collection Experience, July 26, 2001

- P Review of the Railroad Retirement Board's Contract with Comprehensive Health Service, Inc. for Disability Examination Services, August 7, 2001

- P Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments, August 9, 2001

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- P Review of the Railroad Retirement Board's Handling of the Payment Rate Entitlement History System's Relational Edits, August 9, 2001

- P Security Control Analysis, August 17, 2001

- P Monitoring of the Railroad Retirement Board's Planning for Possible Legislative Changes, August 30, 2001

- P Review of the Railroad Retirement Board's Cost of Living Mass Adjustment Process, August 31, 2001

- P Review of Separation Allowance Disqualification Periods, September 20, 2001

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APPENDIX B

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

	Number	Questioned Costs	Unsupported Costs
A. For which no management decision had been made by April 1, 2001	0	0	0
B. Which were issued from April 1, 2001 through September 30, 2001	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made from April 1, 2001 through September 30, 2001	0	0	0
(i) dollar value of disallowed costs		0	0
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision had been made by September 30, 2001	0		0
Reports for which no management decision was made within six months of issuance	0		0

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**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE**

	Number	Dollar Value
A. For which no management decision had been made by April 1, 2001	0	
B. Which were issued from April 1, 2001 through September 30, 2001	1	\$ 520,000
Subtotals (A + B)	1	\$ 520,000
C. For which a management decision was made from April 1, 2001 through September 30, 2001	0	
(i) dollar value of recommendations that were agreed to by management		0
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision had been made by September 30, 2001	1	\$ 520,000
Reports for which no management decision was made within six months of issuance	0	

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APPENDIX C - REPORT ON RECEIVABLES, WAIVERS, AND RECOVERIES

The FY 1999 appropriations language for this office requires the reporting of additional information concerning actual collections, offsets and funds put to better use achieved as a result of Inspector General activities. Figures are to be provided for each semiannual period and as a cumulative number.

Office of Audit

Report	Funds to be put to better use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date
99-03	\$ 50,850	\$ 50,850	\$ 50,850	\$50,490	\$ 360
99-14	\$ 83,000	\$ 83,000*	\$ 34,423		\$ 30,584
99-16	\$48,000,000	\$48,000,000			
99-17	\$11,000,000	\$11,000,000			
00-16	\$ 235,000	\$ 235,000			\$253,846**

* This figure includes monies owed to the agency and overpayments which must be refunded.

**This figure represents returned payments credited to debtor accounts.

Office of Investigations

Recoveries realized by the RRB resulting from court ordered restitution and civil damages

October 1, 1998 - March 31, 1999:	\$ 344,465
April 1, 1999 - September 30, 1999:	\$ 511,190
October 1, 1999 - March 31, 2000:	\$ 495,402
April 1, 2000 - September 30, 2000	\$ 542,732
October 1, 2000 - March 31, 2001	\$ 457,015
April 1, 2001 - September 30, 2001	\$ 533,341

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APPENDIX D - RRB MANAGEMENT REPORTS*

(The information contained in this section has been provided by RRB management.)

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS FOR
THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 2001**

	Number of Audit Reports	Disallowed costs
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	0
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period. (A + B)	0	0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	0
(b) Property	0	0
(c) Other	0	0
2. Write-offs	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period (C - D.3)	0	0

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**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
FOR THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 2001**

	Number of Reports	Funds to be put to better use
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	3	\$ 58,894,380 (See note below)
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period. (A+ B)	3	\$ 58,984,380
D. Audit reports on which final action was taken during the period.	0	0
1. Value of recommendations implemented (completed)	0	0
2. Value of recommendations that management concluded should not or could not be implemented (completed)	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period (C - D.3)	3	\$ 58,984,380

*Comprised of the following amounts: \$48,000,000 from Audit Report 99-16, "Financial Interchange: Status of Prior Recommendations for Change;" \$10,606,200 from Audit Report 99-17, "Review of Supplemental Annuities;" and \$378,180 from Audit Report 00-12, "Review of Tier 1 Reductions for Other Disability Benefits." The last figure represents combined over- and underpayments from individual case adjustments, as the report itself did not provide a specific estimate of the financial impact.

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**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2001**

Report	Date	Disallowed Costs	Funds to be put to better use	Reason action is not completed
Review of Initial Claims Processing (96-15)	09/20/96	None	None	A new computer system, scheduled for development in fiscal year 2002, for processing initial benefit applications will address measurement of processing time.
Review of Quality Assurance Activities (97-06)	01/22/97	None	None	The remaining recommendation will be addressed as the agency develops a long-term quality assurance plan over the next year.
Review of Non-Priority Correspondence Handling (97-09)	03/13/97	None	None	The Office of Programs is continuing to evaluate options for correspondence tracking, including the agency's imaging system and PC-based applications.
Review of Duplicate Postings of Railroad Compensation (97-19)	07/31/97	None	None	Needed programming changes to suppress duplicate earnings referrals are scheduled for completion in Fiscal Year 2002.
Review of Overpayments-SSA Transfer Cases (97-22)	08/25/97	None	None	While system changes were made to automate non-death termination cases, preliminary tests revealed the need for added programming, currently underway.
Vested Dual Benefits Appropriations (98-15)	06/16/98	None	None	The agency will review the feasibility of benefit component accounting as it upgrades or replaces legacy processing systems.

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Report	Date	Disallowed Costs	Funds to be put to better use	Reason action is not completed
Review of the Accuracy of Vested Dual Benefits (98-23)	09/30/98	None	None	Necessary programming changes have been requested to ensure processing systems exclude erroneous data.
Review of Computer Problem and Change Management Process (99-05)	02/12/99	None	None	A contractor is reviewing agency help desk procedures, and identified improvements should be in place early in Fiscal Year 2002.
Management Information Report - Payment and Case Accuracy Issues Related to the Financial Statement Audit (99-07)	03/24/99	None	None	The Office of Programs addressed the remaining recommendation in its plans for quality assurance studies conducted during Fiscal Year 2002.
Review of Railroad Unemployment Insurance Act Contributions (99-14)	09/21/99	None	None	The agency hopes to complete needed programming changes to automate the reconciliation process for unemployment insurance reports/payments in Fiscal Year 2002.
Financial Interchange: Status of Prior Recommendations for Change (99-16)	09/28/99	None	48,000,000	The agency reviewed a sample of overpayment cases and will approach the Social Security Administration about revising the methodology for handling such cases.

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Report	Date	Disallowed Costs	Funds to be put to better use	Reason action is not completed
Review of Supplemental Annuities (99-17)	09/30/99	None	10,606,200	The agency is awaiting OMB approval of a notice to railroad employers seeking to verify private pension information, while work continues on reviewing over 11,000 cases identified as needing adjustment.
Review of Internal Controls Over Fixed Assets (00-01)	10/05/99	None	None	The agency purchased new software to improve its fixed asset tracking system and is in the process of installing it.
Review of the Assessment of Interest, Penalties, and Administrative Charges on Benefit Overpayments (00-09)	04/25/00	None	None	The agency published a notice of proposed rulemaking to correct the identified discrepancy in the Federal Register on September 5, 2001.
Review of Financial Statement Reporting for the Financial Interchange (00-11)	05/30/00	None	None	The remaining item will be addressed as part of the next annual financial statement audit.
Information Systems Security (INFOSEC) Assessment Report	06/28/00	None	None	The agency implemented four report recommendations in Fiscal Year 2001. The remaining six will be addressed after a security officer position is filled early in Fiscal Year 2002.

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OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
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Report	Date	Disallowed Costs	Funds to be put to better use	Reason action is not completed
Review of Tier 1 Reductions for Other Disability Benefits (00-12)	08/04/00	None	None	The agency is reviewing cases in which other benefits may have been received, with an April 30, 2002 target completion date.
Review of the RRB's Compliance with the Critical Infrastructure Assurance Program (00-13)	08/09/00	None	None	The agency completed a preliminary update of computer security plans in Fiscal Year 2001, and will update them again in Fiscal Year 2002.
Review of the Processing of Automated Receivables, Reclamations and Credits (ARRC) System Referrals (00-14)	08/11/00	None	None	Programming changes were made with respect to processing representative payee referrals, but testing indicated the need for additional modifications.
Review of Information Technology Contracts (00-15)	09/06/00	None	None	Corrective action on the remaining recommendation should be completed early in Fiscal Year 2002.
Review of Internal Control Over Financial Accounting for Debt Recoveries (00-16)	09/29/00	None	None	Management closed nine recommendations from this report in Fiscal Year 2001. Corrective action on the three remaining recommendations should be completed in Fiscal Year 2002.

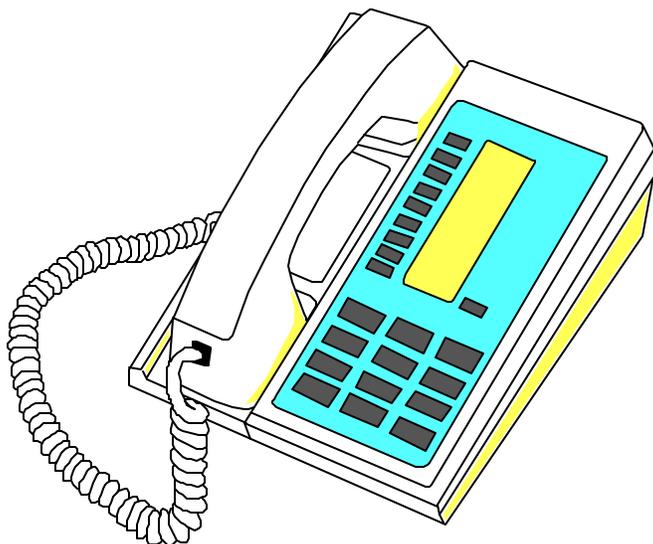
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APPENDIX E - REPORTING REQUIREMENTS

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REPORT

FRAUD, WASTE AND ABUSE



**Call the OIG Hotline:
800-772-4258**

E-mail: Hotline@oig.rrb.gov

The OIG cannot ensure confidentiality to persons who provide information via e-mail. Do not send information by e-mail that you do not want a third party to read.

**Write: RRB-OIG Hotline Officer
844 North Rush Street
Chicago, IL 60611-2092**